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Sustainable Investment Product Labels – Consultation Paper

First Sentier Group is a global asset manager, managing AU$214.5 billion (as at 30 June 2025) on behalf of our clients, with experience and expertise across a broad range of asset classes and specialist investment sectors. We are stewards of assets managed on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide. We are a stand-alone asset management business and the home of investment teams AlbaCore Capital Group, First Sentier Investors, FSSA Investment Managers, Igneo Infrastructure Partners, RQI Investors, and Stewart Investors.

Our investment teams operate with a high degree of autonomy, each applying distinct investment strategies, styles, and risk appetites. This diversity creates varying opportunities and constraints for integrating sustainability considerations. As such, we believe a principles-based approach to labelling and disclosure is essential – one that accommodates different methodologies and avoids a one-size-fits-all model. Flexibility is key to ensuring the regime reflects the realities of investment practice while maintaining integrity and comparability.

We have substantial experience engaging with investment product labelling, disclosure, and classification regimes globally, including regulatory frameworks across the EU and UK, as well as industry-led standards adopted across key markets. This experience enables us to provide informed input into the development of credible, flexible, and investor-relevant sustainable investment product frameworks.

We welcome the Australian Government's consultation on Sustainable Investment Product Labels as a critical milestone in the implementation of Australia's Sustainable Finance Roadmap. We support a pragmatic and voluntary labelling regime that applies to investment products pursuing a sustainability (or related) objective.

This is an important step toward providing investors with clarity on how they can invest in line with their values and preferences, while also offering regulatory certainty for fund managers seeking to launch sustainable investment products in the Australian market. Ultimately, this initiative contributes to building a more transparent, trusted, and resilient financial system that supports the transition to a sustainable future.

We believe it is important to clarify the distinct, yet often conflated, regulatory functions of labelling, disclosure, and certification. These terms serve different purposes and should be treated accordingly in the design of any sustainable investment product framework.

- **Disclosure**: Information provided to investors about a product's sustainability characteristics and level of ESG integration.
- **Labelling:** A voluntary consumer-facing labelling program that should apply to products that make sustainability claims and pursue sustainable objectives.
- **Certification:** Independent verification that a product meets the criteria associated with a label or claim.

- **Classification:** Groupings of financial products according to shared sustainability characteristics.[1]

With regard to disclosure, we support a base level of regulation that requires all investment products to disclose whether sustainability risks or factors are considered in their investment process. This would help differentiate between:

- Products with no consideration of ESG or sustainability risks or factors.
- Products that integrate ESG as part of risk management or governance, but do not pursue a sustainability-related objective.
- Products that explicitly aim to achieve sustainability outcomes. These products may voluntarily pursue a label.

This approach would ensure that the regulatory burden does not fall solely on products that make sustainability claims and pursue sustainability objectives. It would enhance transparency across the entire market and help investors make informed choices, without conflating ESG integration with sustainability outcomes. It would also reflect the reality that ESG integration is now a standard part of investment practice, even where sustainability is not the primary objective.

In particular, the UK's experience with the Sustainability Disclosure Requirements and investment labelling regime (SDR) highlights the importance of:

- Grounding regulatory design in robust market analysis of the Australian fund universe, including asset classes and investment strategies.
- Developing the framework through inclusive and iterative consultation, with early guidance to support implementation.
- Avoiding a one-size-fits-all approach, allowing flexibility for diverse investment strategies and recognising portfolio manager judgement and expertise in assessing sustainability factors and objectives.

Finally, we encourage the Government to ensure the framework alleviates, rather than exacerbates, concerns about greenwashing. The current enforcement-led approach, focused on high-profile legal test cases, has created uncertainty and caution among market participants. This has prompted some funds to withdraw or delay the launch of products pursuing sustainability-related objectives.

A clear, principles-based labelling regime can help build investor confidence and support the growth of credible sustainable investment offerings in Australia, while simultaneously tackling greenwashing risk.

[1] RIAA. (2025). *Information about responsible investment products*. Retrieved from: https://www.responsibleinvestment.org/support/article/information-about-responsible-investment-products

Policy Problem

1. In the context of existing regulatory settings and disclosure requirements, what is the role for sustainable financial product labels?

Sustainable financial product labels should serve as a market-wide tool to enhance clarity, comparability, and confidence for all investors (including retail, institutional, and wholesale). Labels should:

- Be voluntary, allowing flexibility while encouraging best practice.
- Complement existing disclosures by offering a simple, consumer-facing signal of the sustainable (or related) investment approach.
- Help investors identify products aligned with their values, sustainability goals, and risk preferences.
- Support product issuers in making credible, substantiated claims, reducing the risk of greenwashing and greenhushing by clarifying regulatory expectations.
- Be underpinned by principles-based criteria, with independent third-party verification to ensure credibility and consistency.
- Be accessible and intuitive, especially for retail investors, to foster informed decision-making.

Importantly, any labelling regime must be designed to support the broader goals of the Sustainable Finance Roadmap, including the transition to net zero and the development of a sustainable, prosperous economy. Labels should not become a compliance burden or a marketing tool, disconnected from real-world outcomes.

First Sentier Group supports a considered approach to labelling that learns from international regimes and avoids unintended consequences such as stifling innovation or oversimplifying complex sustainability issues.

We broadly support modelling the Australian regime off the UK's SDR. This regime includes a requirement for an independent assessment of the sustainability standard used conducted internally or by a third party. We believe Australia has an opportunity to adopt a more pragmatic and scalable approach. Importantly, managers must retain discretion to define what constitutes a sustainable objective and describe their approach. Labels should be verified by an independent third party, with government oversight limited to approving certifiers, rather than the government conducting the verification and prescribing approaches.

2. Should any new requirements apply to all financial products that make a claim or state a sustainability or similar objective other than, or in addition to, maximising financial returns?

Yes, any product making a sustainability-related claims or pursuing sustainability objectives should be subject to disclosure requirements to substantiate those claims. The nature and level of disclosure should reflect the product's sustainability ambition and include expected progress against stated objectives.

The scope of new requirements should depend on the regulatory lever:

- **Labelling:** Should apply only to products that actively market themselves using sustainability-related terms (e.g. 'sustainable', 'green', 'responsible', 'ethical') and that pursue a sustainability-related objective.
- **Disclosure Requirements:** Should apply to all product issuers, ensuring transparency around the extent to which sustainability or ESG factors and sustainability risks are considered in the investment process (as required in the EU's SFDR). We support a more concise, user-friendly approach to disclosure, similar to the UK's two-page consumer-facing document, rather than extensive and exhaustive reporting (e.g. SFDR annexes), which can often obscure rather than clarify key information. The European Supervisory Authorities have similarly called for 'simplified disclosures that empower retail investors to better understand the underlying sustainability profile of financial products' in a revised SFDR.[2] Additionally, disclosure in the labelling framework should seek to replace current sustainability related disclosure already required in Australia. This includes:
    - Products that do not consider sustainability or ESG factors at all should disclose this explicitly to avoid any implied alignment with responsible investment practices. This includes material

[2] Joint ESA's Opinion on the assessment of the SFDR (2024). Pg 4

exposures to business activities associated with significant negative environmental or social impacts (e.g. controversial weapons and tobacco products).

- Products that engage in responsible investment practices such as ESG integration, stewardship, exclusions, or thematic approaches, even if they do not pursue a sustainability-related objective. These products should disclose the nature, scope, and purpose of these practices to help investors understand how sustainability factors are considered. This type of disclosure should use simple language and terms that retail investors understand based on consumer research (e.g. 'improvers' rather than 'transition').
- Products that explicitly aim to achieve sustainability outcomes should be eligible for voluntary labelling and be required to report progress against those objectives.

International context

3. What aspects of international regimes should the Government consider for Australian application?

Australia has an opportunity to learn from international regimes such as the EU's SFDR and the UK's SDR. We believe that the UK's current voluntary, non-hierarchical, and principles-based approach to sustainability labels represents the most suitable model for informing the development of the Australian regime. The Australian regime should consider similar distinct sustainability labels that are suitable to a broad range of sustainable investment strategies and approaches.

UK approach

One particularly relevant label for the Australian regime is the UK's *'Sustainability Improvers,'* which recognises transition-focused strategies (e.g. portfolios and/or portfolio companies that have the potential to improve environmental and/or social sustainability over time). Such a label has a vital role to play in directing capital towards companies that are actively working to become more sustainable over time but are not yet considered 'green'. The EU SFDR has been widely critiqued for lacking a dedicated category for such strategies.

In contrast, the UK's '*Sustainability Mixed Goals*' label has seen limited uptake due to its complexity and operational demands. Under the UK framework, these products must meet the criteria of two separate labels (e.g. '*Sustainability Focus'* and '*Sustainability Improvers*') and disclose the expected proportion of assets aligned with each. This requires detailed tracking and monitoring across multiple criteria. Our experience evaluating this label for an infrastructure fund highlighted the difficulty of categorising assets that may be both sustainable and in transition. While the concept may have merit, any Australian equivalent should be informed by a thorough evaluation of suitable strategies and practical implementation challenges.

Treasury should also consider the introduction of sustainability disclosure obligations for non-labelled funds through a naming and marketing rule. In the UK, this rule applies to products that use sustainability-related terms in their name or prominently feature such terms in their marketing, even if they do not carry an official sustainability label. This approach ensures that labelled products are not subject to more onerous compliance and disclosure obligations above those not applying for a label and provides greater clarity to retail investors across a broader range of fund options.

Another important aspect of the SDR approach for Treasury to consider is the need for robust consumer testing as part of the consultation process, to help shape the direction of the Australian labelling regime. Treasury should follow the FCA's lead and undertake consumer testing to ensure labels and disclosures resonate with retail investors. This could build on existing RIAA[3] consumer surveys to understand what information Australian retail investors value most. The FCA undertook extensive consumer testing ahead of publication of the SDR policy statement.[4] Results of consumer testing determined that sustainability factsheets improved consumer comprehension of sustainability characteristics and led to the development of a two-page consumer-facing product level sustainability disclosures.[5] A similar document could be developed for Australia and potentially replace existing disclosure requirements under section 1013DA of the Corporations Act and ASIC RG 65.

[3] Kate Turner, the Global Head of Responsible Investment at First Sentier Group, currently serves as Chair of RIAA. This role is separate from her role with the First Sentier Group. We disclose this in the interest of transparency.
[4] FCA Occasional Paper 62 (2022) 'Matter of fact-sheets: improving consumer comprehension of financial sustainability disclosures' https://www.fca.org.uk/publication/occasional-papers/occasional-paper-62.pdf
[5] Ibid 5

The SDR has been criticised for its interpretative challenges and inconsistent application with rigid KPI expectations and prescriptive evidentiary requirements which have limited scope for flexibility. While evidence of progress toward sustainability objectives is essential, such evidence can take various forms, including qualitative indicators Australia should consider a more principles-based evidentiary framework. To minimise similar interpretative and application challenges, the Australian regime should provide detailed early guidance including by asset class/strategies, illustrative examples that support each label, and tools (e.g. checklists or decision trees) to help issuers interpret and apply the rules consistently.

Another key concern with the UK SDR framework has been the lower-than-anticipated uptake of labels. According to industry surveys by the UK Investment Association only around 100 funds have successfully adopted a label to date, less than half of initial expectations.[6] Overall, labelled funds only represent approximately 4% of UK domiciled funds. A similar outcome in Australia would ultimately limit the availability of sustainable investment products to retail investors. Several factors may explain the low uptake in the UK, including the misalignment of certain labels with specific investment strategies, difficulties faced by investment managers in interpreting and operationalising the policy framework, a regulatory approval process that was, at times, often inconsistent and overly rigid, and insufficient recognition of portfolio managers' discretion in evaluating the sustainability characteristics of portfolio companies.

Building on this, Treasury will need to carefully define the appropriate thresholds or 'high bar,' as referenced in the UK's SDR, for Australia's labelling regime to ensure it captures a broader spectrum of investment products that reflect the diversity of the sustainable investment universe. This should be informed by a comprehensive market analysis of the current Australian fund landscape, evaluating how different asset classes and strategies, such as broad-based or multi-thematic equity funds (for example across social and environment goals), fund-of-funds, and mixed asset portfolios, might align with each proposed label. The regime should also recognise and accommodate the role of portfolio manager judgment and expertise in assessing the sustainability characteristics of portfolio companies, which is essential for delivering on nuanced and evolving sustainability objectives. This is particularly important during the label authorisation process, where managers should not be compelled to divest from specific assets unnecessarily, especially when those holdings can be justified within a credible sustainability strategy. Portfolio transparency tools, such as Portfolio Explorer[7], developed by Stewart Investors, one of First Sentier Group's affiliate investment teams, can support this by enabling investors to assess how individual companies contribute to sustainable outcomes.

EU approach

In the EU, the SFDR has operated as a de facto labelling regime through its Article 6, 8, and 9 classifications. Its dual role as both a transparency framework and an implicit labelling system has led to confusion, inconsistent application, and regulatory uncertainty. In June 2024, the European Supervisory Authorities acknowledged that the SFDR could be improved and that the disclosures to investors may be complex by nature and difficult to understand.[8] A process is under way to revise the SFDR to separate its disclosure and labelling functions. Australia should heed this advice and avoid conflating disclosure with labelling, ensuring each serves a distinct purpose.

We support Australia's adoption of aspects of the SFDR's disclosure model such as the flexibility for managers to define their sustainable investment approach. However, we recommend avoiding the rigidity of Principle Adverse Impact (PAI) disclosures as indicators of significant harm and instead follow the UK approach of determining and disclosing any material negative environmental and social outcomes. Again, transparency of material negative outcomes should be a key component in demonstrating the effective monitoring of such outcomes, including tools such as 'Portfolio Explorer' (as noted above).

a. Is there merit in incorporating additional rules around the type of information required to be disclosed to consumers about sustainability characteristics, similar to the UK's consumer-facing disclosures requirement?

Yes, there is value in introducing clearer rules for consumer-facing sustainability disclosures than what is currently outlined in the Corporations Act. Standardised, concise disclosures (like those in the UK SDR) can help retail investors better understand a product's sustainability objective and approach.

However, while these documents contain useful information, there are valid concerns about how often they are actually read by consumers, and if this just adds to an already extensive disclosure regime. This highlights

[6] The Investment Association. (2025). SDR Implementation Survey Results. Retrieved from: https://www.theia.org/sites/default/files/2025-06/SDR%20survey%20results%202025-%20Full%20deck%20final.pdf
[7] Stewart Investors. (2025) Portfolio Explorer. Retrieved from: https://www.stewartinvestors.com/all/how-we-invest/our-approach/portfolio-explorer.html
[8] Joint ESA's Opinion on SFDR level 1 (2024).

the importance of designing disclosures that are not only consistent but also accessible and valuable for retail investors.

The Group's view is that this document could learn from the UK SDR Consumer Facing Document (CFD) and not require annual progress reporting and instead be a static document explaining the approach. Furthermore, any additional disclosures should take the place of existing similar disclosures requirements such as those under s1013DA of the Corporations Act and supported by ASIC Regulatory Guide 65 (RG65).

4. Is international interoperability important for Australian sustainable investment product labelling?

Yes, interoperability is important for reducing regulatory burden for global asset managers and enabling more consistent and efficient product design across jurisdictions. The successful adoption of the globally recognised IFRS S2 Climate-related Disclosures standard in Australia demonstrates the value of aligning with internationally recognised frameworks. However, it should be balanced with local relevance, with the primary objective to serve the needs of Australian investors. Guidance demonstrating the mapping of international regimes to the Australian regime will support product issuers in understand the connection between each. As an alternative to full harmonisation, the Australian regime could explore mutual recognition of labels from trusted jurisdictions as equivalent regimes where baseline requirements of the Australian regime are met. This would reduce duplication and support cross-border investment while maintaining relevance for Australian investors.

However, while we support streamlining and mutual recognition in principle, it is important to acknowledge that both the SFDR and SDR have faced significant implementation challenges. Australia has an opportunity to learn from these experiences and avoid replicating elements that have proven ineffective or burdensome (as noted above). Mutual recognition should not mean automatic acceptance of regimes with unresolved issues. Instead, it should be based on a clear assessment of whether foreign frameworks meet Australian standards for transparency, credibility, and investor relevance.

Designing standardised labelling

Investment approaches

5. Do the Responsible Investment Approaches (identified in Table A), UNSDG and PRI cover the field for sustainable investment approaches? Are there others that should be considered?

a. Are any of these approaches inappropriate? If so, why?

Broadly, the Responsible Investment Approaches outlined in Table A (including screening, ESG integration, thematic investing, stewardship, and impact investing) provide a strong foundation for defining sustainable investment strategies. These approaches are widely recognised in the industry and reflect current market practice. However, most retail consumers are unfamiliar with these terms and may not understand how they differ. To support informed decision-making, the regime should prioritise clear, plain-language explanations of these approaches, backed by consumer testing.

However, we caution against using broader frameworks such as the UN SDGs and the PRI as standalone labelling criteria for the following reasons:

- The SDGs are a global policy framework, not an investment approach. They are time-bound (2015–2030), and their sub-targets and indicators were not designed with investment alignment in mind. This makes substantiation difficult and raises concerns about long-term relevance and consistency.
- The PRI is a set of overarching principles that encompass multiple investment approaches. It does not represent a distinct strategy and may introduce ambiguity if used as a labelling anchor.

b. What are the merits and deficiencies of each approach?

Each approach has strengths and limitations depending on the context. A sustainable investment approach for a labelled investment product should extend beyond basic ESG integration or standard exclusionary screening. However, from a consumer perspective:

- Most consumers do not distinguish between approaches, they care about outcomes.

- FCA research[9] found that consumers struggled with terms like 'transition' but responded well to 'improvers,' which suggests that language and framing matter more than technical distinctions.

We support allowing issuers to use any or all approaches to achieve sustainability outcomes, provided they are transparent about their strategy and its implications. A sustainable investment approach for a labelled product should extend beyond basic ESG integration or standard exclusionary screening.

c. Should the approaches be ranked on their ability to deliver sustainable outcomes?

Approaches should not be ranked based on their ability to deliver sustainable outcomes. Effectiveness varies by asset class, sector, and issuer. Attempting to rank approaches oversimplifies the complexity of sustainability and risks misrepresenting the impact of different strategies.

A literature review by Tom Gosling and Harald Walkate, published by the European Corporate Governance Institute (ECGI), highlights that sustainable investment approaches differ significantly in their effectiveness and outcomes.[10] For example, the authors argue that corporate engagement, as part of a stewardship approach, can have impact on company actions (such as adjusting corporate policies or disclosures). However, evidence of real-world impact on the broader economy or environment is harder to verify. Separately, capital allocation approaches (including divestment and portfolio ESG tilting) can influence share prices and cost of capital for companies – for instance, companies perceived as less sustainable may face a higher cost of capital. However, the extent to which this higher cost of capital leads to tangible changes in corporate behaviour, such as shifts in management decisions or operational practices, remains uncertain.

Additionally, research from the First Sentier MUFG Sustainable Investment Institute on constructive corporate engagement found that successful engagement depends on key factors, such how the engagement is conducted by a manager and the experience of the shareholder engagement team.[11] The research, based on a survey of 100 senior corporate directors and CEOs across companies of varying sizes, also found that these factors are not present in all engagements. Therefore, the success of an investment approach is dependent on how it is implemented by the asset manager, rather than the approach itself always delivering sustainable outcomes.

Accordingly, we believe that the success of a responsible or sustainable investment approach depends more on how it is implemented than on the strategy itself.

6. Should allowable investment approaches be prescribed in legislation, or left for industry to define?

We would argue that allowable investment approaches, if ultimately included as part of the regime, should be set out in industry guidance to support the regime, rather than prescribed in legislation. While these strategies are well-established, sustainable investment approaches are prone to evolving, and innovating, in response to escalating environmental, economic and societal challenges, and investor preferences. This would necessitate periodic legislative updates, which could delay product innovation until the relevant investment approach is formally codified.

7. Which approach can best improve the confidence of Australian investors? Which options best help investors to identify, compare, and make informed decisions about sustainable investment products?

As above, First Sentier Group is of the view that each approach to responsible investment has its own merits. There is no single 'best' investment approach to improving investor confidence that sustainability outcomes are being delivered. The key to improving investor confidence is not prescribing one method over another, but ensuring that investors have access to clear, consistent, and meaningful information about how a product intends to achieve its stated sustainability objectives.

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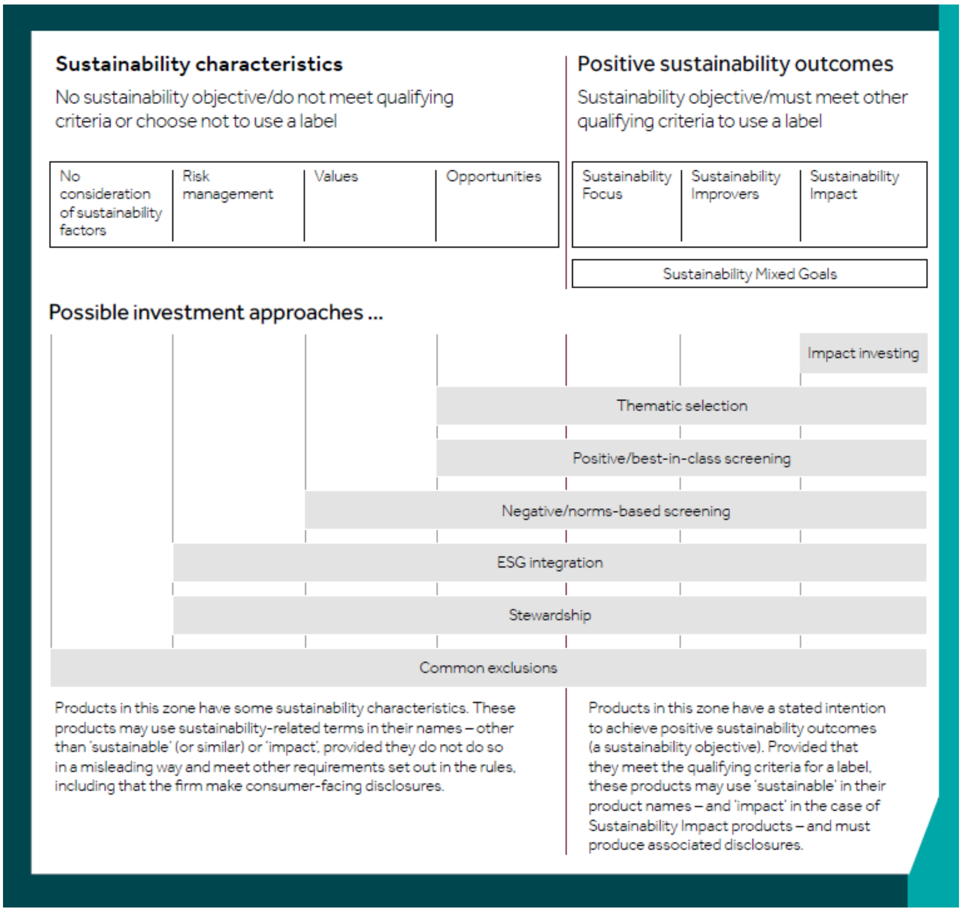
[9] Thinks Insight & Strategy. (2023). Sustainability Disclosure Requirements (SDR) and investment labels regime (Qualitative Research). Retrieved from https://cdn.prod.website-files.com/6578727b2437b2ef1c478c1b/65aa6fa4cf8694a6bad2094f_Thinks_ExecutiveSummary_Sdr-investment-labels-regime-qualitative-research.pdf

[10] Gosling, T., & Walkate, H. (2024). Does sustainable investing work? A literature review. European Corporate Governance Institute. Retrieved from https://www.ecgi.global/publications/blog/does-sustainable-investing-work-a-literature-review

[11] First Sentier MUFG Sustainable Investment Institute & PwC. (2023). *Corporate Engagements Report*. Retrieved from https://www.firstsentier-mufg-sustainability.com/content/dam/sustainabilityinstitute/assets/research/corporate-engagement-report/sustainable-investment-institute-corporate-engagements-report.pdf

We recommend that Treasury consider adopting a framework similar to the one outlined in the UK SDR Policy Statement (PS23/16, p. 97), which provides a conceptual map of investment strategies rather than a rigid classification system. This framework distinguishes between:

- Sustainability characteristics (e.g. ESG integration, stewardship).
- Positive sustainability outcomes (e.g. impact investing, thematic strategies).



This conceptual distinction helps avoid conflating foundational responsible investment practices (which may apply across all products) with strategies explicitly designed to deliver sustainability outcomes alongside financial returns. A similar approach in Australia would support clarity, comparability, and consumer understanding.

Outlining these strategies would help standardise terminology and improve disclosure, without imposing a hierarchy or restricting innovation. Guidance from Treasury could describe common features of each approach, based on industry practice, to support consistent and transparent communication across the market.

Triggering the requirement

8. What should determine when product labels apply to a financial product? What are the benefits and costs of:

a. applying labels to all financial products regardless of sustainability claims?

b. applying them only to products that market themselves as sustainable or similar?

First Sentier Group is of the view that labels should be voluntary and apply only to products that pursue a sustainability objective and market themselves as sustainable. This approach ensures the regime remains proportionate and targeted, avoiding unnecessary compliance burdens for products that do not make sustainability-related claims.

However, we support the notion that a degree of disclosure requirements should apply to all products, regardless of whether they carry a label including disclosure in respect of how the product considers sustainability risks (as seen in the EU SFDR). This dual approach promotes transparency and informed consumer choice, without penalising innovation or discouraging sustainability integration. We acknowledge that issuers are already required to disclose the extent to which environmental, social, or ethical considerations are considered under section 1013DA and ASIC RG 65. However, these requirements were introduced in 2011 and would have benefitted from more detailed guidance to avoid inconsistent and superficial disclosures. In particular, we recommend amending section 1013DA of the Corporations Act to require product issuers to positively state when ESG factors are not considered in their investment process.

This would improve transparency and comparability across the market, helping investors distinguish between:

- Products involved in controversial or harmful activities (e.g. tobacco, controversial weapons)
- Products that do not consider or integrate ESG or sustainability risks or factors.
- Products that integrate ESG or sustainability as part of risk management or governance, and may engage in engagement and proxy voting, but do not pursue a sustainability-related objective.
- Products that make sustainability claims and aim to achieve sustainability outcomes.

Importantly, what matters to each consumer varies – some may prioritise avoiding exposure to certain industries, while others seek positive impact. A dual framework of voluntary labelling and universal disclosure supports this diversity, reduces greenwashing risk, and reflects the reality that ESG integration is now common practice, even where sustainability is not the primary goal.

9. Which approach would best address issues of greenwashing and/or greenhushing?

We support a principles-based, voluntary labelling regime, underpinned by:

- Baseline disclosure requirements for all products, regardless of whether they carry a label.
- Third-party certification for labelled products to enhance credibility.
- Clear guidance on the use of sustainability-related terms in product names and marketing

To effectively manage the risk of greenhushing, the regulatory framework must be efficient, proportionate, and adaptable. Overly prescriptive rules may discourage genuine sustainability efforts, particularly among active managers whose strategies may not fit rigid definitions.

10. What features of a financial product should trigger a labelling requirement?

a. **Should particular words or terms be specified?**

b. **Should it be based on a threshold such as per cent of product invested under a sustainable investment approach or objective?**

We believe that certain terms in product names should trigger labelling requirements. The UK SDR policy statement has identified the terms ‘sustainable’, ‘sustainability’ and ‘impact’ as essentially triggering the requirement to apply for a label. These terms are effectively prohibited from use for any non-labelled product. The UK approach similarly identifies a number of other sustainability-related terms with ‘any other term which implies that a sustainability product has sustainability characteristics’ also in scope for the naming and marketing rules thereby triggering disclosure requirements. Similarly, the EU’s guidelines on funds’ names using ESG or sustainability-related terms has identified key terms derived from ‘transition’, ‘environmental’, ‘social’, ‘governance’, ‘impact’ and ‘sustainability’.

The Australian regime should adopt a similar approach by identifying similar key terms that trigger labelling or disclosure requirements. However, this should be done with care to avoid excessive rigidity that could lead to greenhushing, where firms deliberately downplay or remove sustainability references from product names, even when the products genuinely pursue sustainable investment strategies, to mitigate perceived regulatory risk or disclosure that is seen as burdensome.

We also support a clear threshold for labelled products such as per cent of product investment under a sustainable investment approach. Any lack of clarity in this respect would only serve to cause confusion amongst product issuers and investors alike. Thresholds for labelled products should be clearly defined, but not so high as to create unnecessary barriers to participation or exclude credible sustainability strategies.

Similarly, they should not be set so low that they dilute the integrity of the labels or allow products with minimal sustainability alignment to qualify, which could undermine investor trust and the regime's overall credibility. We believe a threshold of 70-80% would trigger the option to 'opt-in' for a label and ensures that a substantial majority of the product's assets are aligned with a sustainable investment approach, reinforcing the integrity of the label and building trust with investors. This threshold allows room for portfolio managers to exercise judgment in holding assets that may not strictly meet sustainability criteria but serve strategic or transitional purposes within a broader sustainable framework. The regime should also be explicitly clear how investment instruments such as derivatives and cash and cash equivalents are treated for the purpose of such thresholds.

Further, the UK regime's use of minimum general and label-specific criteria provides for a clear and flexible structure that could be adapted to support transparency and integrity in the Australian market. It is important that such criteria remain principles based rather than being overly prescriptive in nature.

Evidence Base

11. Should evidentiary requirements underpinning labelling be prescriptive, principled or a mixture of both?

Australia's sustainable investment labelling regime should both guard against greenwashing and promote sustainable investing as part of the broader sustainable finance roadmap. We agree that overly stringent and inflexible evidentiary requirements, as highlighted in the consultation paper, may discourage product issuers from pursuing sustainable investments. In the UK context, certain labelled funds have been required to include extensive disclosures in their product materials, detailing a comprehensive list of the types of evidence expected to be used. This approach should be avoided in the Australian regime to ensure it remains practical and enabling. However, we do support clear disclosure as to how a product measures sustainability performance and outcomes including methodologies and metrics used.

Investment products that adopt a sustainability label due to a stated sustainability objective should be able to substantiate their claims and demonstrate what they say they do from a variety of sources of evidence. This includes being able to explain their investment approach, provide evidence of alignment with the stated objective, and report on outcomes in a credible and consistent manner. This evidence may be qualitative, quantitative, or a combination of both. We believe that qualitative assessments can be as important as quantitative measures and understanding the real-world impact that companies have. Where necessary, product issuers should be able to demonstrate how the body of evidence they have gathered supports the selection of individual portfolio holdings and contributes to the overall sustainable investment objective.

Labelled products should be subject to common reporting requirements to support transparency and comparability. However, these requirements should not be overly prescriptive. The experience of the UK SDR highlights the challenges of requiring a consistent set of pre-defined KPIs, particularly for broad-based or multi-thematic strategies. For example:

- Simple metrics such as portfolio GHG emissions often fail to capture the full context of investment decisions or explain why changes occurred over time.
- Some strategies do not rely on a fixed set of KPIs or singular measures. In such cases, fund managers should be permitted to define their own approach and provide appropriate evidence to support their claims while balancing the need to keep disclosures simple for consumers. Evidence could also vary depending on the industry or sector a portfolio holding operates in.

We also support the inclusion of a 'do no significant harm' (DNSH) requirement for labelled products. While the SFDR's PAI indicators have proven problematic – due to complexity, poor corporate disclosure rates, and the lack of materiality of metrics across sectors – the underlying principle of double materiality remains important. Products making sustainability claims should be able to determine and disclose any material negative environmental and/or social outcomes.

12. Should evidentiary requirements for investment product labels be linked to other policy initiatives being progressed as part of the Roadmap (such as the taxonomy)?

Evidentiary requirements should be principles-based, not prescriptive. Investment managers should be able to define and justify their evidence, subject to regulatory challenge. However, we do support the use of a Taxonomy as a means of evidence, and acknowledge its complementary role with the labelling regime. We support the approach taken under the EU SFDR, where the taxonomy is offered as one option, but not the only path to demonstrate the pursuit of sustainability objectives. Making taxonomy alignment a mandatory evidentiary requirement would be unworkable in practice, particularly given the current state of taxonomy development, data availability and alignment levels.

13. What should be the role of independent third-party certification? If third-party certification is required, what criteria should be the product be certified against and who should set those criteria?

a. If third-party certification is not required, how can credibility and robustness of labels be ensured?

We support the use of independent third-party certification for labelled products as a means to enhance credibility, transparency, and consistency across the sustainable investment landscape.

Certification should verify that a product meets the criteria associated with its label, without imposing rigid or binding commitments. For example, if a fund commits to a transition pathway and a portfolio company fails to meet its target due to unforeseen circumstances, the fund should not be penalised or accused of greenwashing. The certification process must recognise the dynamic nature of sustainability outcomes and allow for reasonable flexibility.

The criteria for certification should be:

- Developed by the government in close consultation with industry stakeholders.
- Designed to ensure integrity and comparability across products, while remaining adaptable to different investment strategies and sustainability objectives.

Australia can learn from the challenges faced by the UK's FCA during the implementation of the SDR. In particular, the FCA's direct involvement in certification and labelling was hampered by limited resources, expertise and capacity. To avoid similar pitfalls, we recommend that certification be outsourced to government-endorsed third-parties.

RIAA is a well-established and trusted certifier in the Australian market. Its Responsible Investment Certification Program has been operating for over 18 years and is one of the world's longest-running responsible investment product labelling schemes and is widely trusted in the Australian and New Zealand market. Other providers (e.g. reputable accounting and consultancy firms) could also be utilised where a universal review process is adopted to ensure a consistent approach to assessing the merits of the labels.

Note: *Kate Turner, the Global Head of Responsible Investment at First Sentier Group, currently serves as Chair of RIAA. This role is separate from her role with the First Sentier Group. We disclose this in the interest of transparency.*

We advise against referencing frameworks such as the UN SDGs or B Corp certifications in the labelling regime. These are often misused or lack relevance to investment product labelling, and may introduce ambiguity or dilute the credibility of the regime.

By endorsing a network of qualified certifiers, Australia can build a scalable and credible certification framework that supports investor confidence and product integrity without overburdening regulators.